The HOME Program Formula

The "HOME Investment Partnerships Act" (HOME), authorized under Title II of the National Affordable Housing Act of 1990, allocates formula funds to participating jurisdictions (PJs) to increase the number of families served with decent, safe, sanitary, and affordable housing and to expand the long-term supply of affordable housing.

HOME funds, which are made available for allocation, are split so that 60 percent are initially designated for metropolitan cities, urban counties and consortia that receive more than the minimum funding and 40 percent for states. States with no participating jurisdictions also receive $500,000 in funds from the 60% pot. Also, funds from local PJs that do not apply for an allocation are reallocated to their state, thereby also shifting funds from the 60% pot to the 40% pot. For purposes of the HOME formula, Puerto Rico and the District of Columbia are included among the states. HUD allocates a share of HOME funds to jurisdictions and states with a mathematical formula that measures the relative need for affordable housing. Demographic factors, which are derived primarily from the most recent decennial census, represent the relative need.

The Department developed the HOME formula based on criteria established in the HOME legislation. The criteria provide that the formula should be spread geographically to reflect different types of housing need and should not allocate funds excessively to any one community or state. The criteria also identify the following types of affordable housing needs.

- Relative inadequacy of housing supply
- Supply of substandard rental housing
- Number of low-income families in rental housing units likely to be in need of rehabilitation
- Cost of producing housing
- Incidence of poverty
- Fiscal incapacity to carry out housing activities without Federal assistance

The Department first allocated funds under the formula for Fiscal Year 1992. The formula factors and funding procedure in subsequent years have been basically unchanged. The appropriation has grown each year, as has the number of PJs.

Eligibility Requirements

States are automatically eligible to receive a HOME allocation. Metropolitan cities and urban counties may qualify for direct funding if they receive a minimum allocation of the $500,000, or $335,000 when Congress appropriates less than $1.5 billion. Metropolitan cities and urban counties are established under the CDBG program. Consortia, which are contiguous units of governments that join together to apply for the HOME program, may also qualify if they receive at least the minimum allocation. Once a PJ does qualify, it retains its status under the HOME program, even if its future allocation falls below the minimum.

Participation in the HOME program automatically includes all states and any other jurisdictions with funding of at least $750,000, or $500,000 when Congress appropriates less than $1.5 billion. Jurisdictions with formula allocations between the minimum $500,000 (or $335,000 with an appropriation less than $1.5 billion) and $750,000 may add matching funds to reach the $750,000 level that is necessary to actually receive the allocation.

Since eligibility for new PJs is based on funding levels rather than population, it is not clear whether some potential PJs and new consortia will qualify until HUD receives its appropriation and computes the allocation. Any unit of government that does not qualify to receive a direct allocation may apply to its state for HOME program funds.

Formula Funding Allocations

HUD allocates funds to PJs with annual appropriations from Congress, after reductions for any special set asides such as funds for technical assistance and Insular Areas. Of this formula amount, 60% is allocated initially among metropolitan cities, urban counties and approved consortia while the other 40% is allocated among states.

HUD computes an initial HOME allocation amount based on each PJ's share of need. The 60% entitlement funding is allocated based on the relative need among all potentially eligible metropolitan cities, urban counties and consortia. HUD allocates the 40% to states in two parts. Thirty two percent is based on data for the balance of the state after excluding entitlement PJs that pass the minimum funding thresholds. The formula allocates the remaining 8% of the formula amount based on total state characteristics data.

After computing the initial allocation, there are adjustments to the initial amounts that ensure the wide spread distribution of funds and that there is sufficient allocation to each individual PJ. In the case of the 60% pot designated for metropolitan cities, urban counties, and consortia, the funds from non-qualifying PJs with the lowest initial allocations are redistributed on a pro rata basis to other PJs so as to maximize the number of qualifying PJs. In the case of the state, the initial allocations are adjusted so that no state receives less than $3 million. Also states without qualifying PJs receive an additional $500,000 from the 60% pot. In the case of Puerto Rico and its metropolitan cities, the allocations are capped at no more than twice the per capita funding and any excess funds are redistributed to other PJs competing in the same pot.

Formula factors

The formula has six measurable factors, each having a weight assigned to it. These formula factors were developed to meet the legislative criteria. The six legislative criteria are: 1) inadequate housing supply; 2) substandard housing; 3) low income families in housing units likely to be in need of rehabilitation; 4) costs of producing housing; 5) poverty; and 6) relative fiscal incapacity to carry out housing activities.

The formula factors are derived from objective, standardized data primarily from the Census Bureau that measure the criteria as identified in legislation. Some formula factors measure more than one criterion, so the weights reflect this overlapping. An explanation of each formula factor including the relationship to the criteria and the weights assigned in the formula are as follows:

(1) Low vacancy and poor renters: This factor is partially indicative of an inadequate housing supply. The value in the formula is obtained by multiplying the number of rental units occupied by a poor household by a market tightness measure. The market tightness measure is the ratio of the national vacancy rate for renters divided by the jurisdiction's vacancy rate for renters. The national vacancy rate is 7.0% per the 2000 Census. Since FY 1994, the data source has been the 1990 census; HUD will use the 2000 census as the data source beginning in FY 2003. Within the formula this factor has a weight of 0.1.

(2) Rental housing with one of four problems: This factor is a measure of the amount of substandard housing as well as inadequate housing supply. The four problem conditions are overcrowding, incomplete kitchen facilities, incomplete plumbing and high rent to income ratio. Since FY 1994, the data source has been the 1990 census; HUD will use the 2000 census as the data source beginning in FY 2003. Within the formula this factor has a weight of 0.2.

(3) The number of rental units that were built before 1950 and that are occupied by the poor: This measure is a measure of the number of low-income housing units likely to be in need of rehabilitation. This factor has a weight of 0.2 in the formula. Since FY 1994, the data source has been the 1990 census; HUD will use the 2000 census as the data source beginning in FY 2003. This factor has a weight of 0.2 in the formula.

(4) RS Means cost index and rental units with one of four problems: This factor is the number of occupied substandard rental units (identified in factor 2) multiplied by a figure that measures the cost of producing housing. This factor has a weight of 0.2 in the formula.

The cost figure in the formula is the ratio of the RS Means cost index for an individual jurisdiction divided by the Means cost index for the nation as a whole (i.e., 100). The source for these indices is the "Means Square Foot Costs Annual Edition" which, as the title would indicate, is updated annually with the revised data used for that year's HOME formula computations.

(5) <u>The number of families in poverty</u>: This factor is used to measure poverty and also the relative fiscal incapacity to carry out housing activities. Since FY 1994, the data source has been the 1990 census; the previous source was the 1980 census. HUD will use the 2000 census as the data source beginning in FY 2003. This factor has a weight of 0.2 in the formula.

(6) <u>Low PCI and population</u>: This factor is used to partially measure the relative fiscal incapacity to carry out housing activities. The factor is computed by multiplying the population of a jurisdiction by its net per capita income (PCI) index. This index is ratio of two factors: (1) the difference between the national PCI ($21,587 in 1999) and the national PCI of a 3-person family below the poverty line ($4,430 in 1999), and (2) the difference between the jurisdiction's PCI and the $4,430 3-person poverty figure. Since FY 1994, the data source has been the 1990 census; the previous source was the 1980 census. HUD will use the 2000 census as the data source beginning in FY 2003. Within the formula this factor has a weight of 0.1.

HOME Formula process – Initial allocation and adjustments

The same formula is used to compute allocations for all three funding pots - local PJs (60%); states based on non-PJ communities (32%) and states based on total data (8%). There are two steps in the allocation process. First, compute an initial formula share based on the funds available for the pot, the assigned weights, the factors for the PJ, and the total factors for all PJs competing for the pot of funds. Second, make adjustments necessary to meet the legislative requirements that the funds be fairly distributed and sufficiently large for each community to carry out the HOME activities.

Local PJs

After local PJs receive initial allocations under the 60% pot, there are several adjustments to ensure that the funds are spread to all communities and so that the funds are sufficiently large to carry out the activities. Initial allocations to Puerto Rican PJs are very high on a per capita basis due the extent of poverty and the weight given to poverty in the formula. The formula process limits funding for any such community so that it does not exceed twice the per capita funding for entitlement PJs.

Second, some potential PJs receive less than the minimum in the initial allocation. The lowest initial allocations are redistributed on a pro rata basis to all other PJs in such a way so as to add to the number of PJs above the minimum. To increase the fundable PJs, the funds from PJs at the lowest half of the range below minimum are successively added to other PJs. When at least 99% of the funds are distributed through this successive roll up, the remaining funds from any below minimum PJ is redistributed to other PJs.

There is also an adjustment to provide additional funding of $500,000 to states that have no PJs with minimum funding. In order to provide for this minimum, all potential PJs' allocations are reduced on a pro-rata basis. If these reductions cause any potential PJ's funding amount to drop below the threshold level, then another pro-rata reduction is performed on all PJs above the threshold to collect an amount needed to bring all previously qualified potential PJs above the threshold.

The last adjustment for local PJs corrects for rounding to the nearest $1,000. After rounding, if the total for all PJs is different from the amount appropriated for the 60% funding level, then the PJs with the highest allocation amounts are either reduced or increased by $1,000 until the total allocation equals the appropriation amount.

State PJs

States receive funds out of a 40% funding pot. This overall state pot is split between two smaller funding amounts: a 32% pot and an 8% pot. The same formula is used for these two pots; however, there is a different basis for computing the state formula factor for each pot. The 32% pot is allocated based on balance of state factors. To compute these balance data, the demographics for all potential participating jurisdictions that received funding from the 60% pot are subtracted from the total state data. The resulting demographics are used in the HOME formula to compute the funding allocation each state will receive under this 32% funding pot. The 8% pot is based on total state data.

Within this 40% funding level, there are a few adjustments that take place after the initial allocations. First the Puerto Rico state amount may not exceed twice the average funding for all states on a per rental unit basis. Second, any state PJs may receive no less than $3,000,000. The 32% and 8% allocations are added together to determine the total 40% state allocation. If a state falls short of $3,000,000, then a pro-rata reduction is applied to the other states so that each state receives at least $3,000,000.

Last, as with local PJs, there is a final rounding adjustment for states. After rounding state allocations to the nearest $1,000, if the total for all state PJs differs from the amount appropriated for the 40% funding level, then the state PJs with the highest allocation amounts are either reduced or increased by $1,000 until the total allocation equals the appropriation amount.

CPD formula programs and data available from the Census Bureau over the coming decade

New data from the Census Bureau will have a significant effect on the funding and operation of CPD's four formula programs: CDBG, HOME, ESG and HOPWA. Beginning in FY 2003, the programs will begin to use the 100% population counts and estimates of poverty and housing from Census 2000. In the second half of the decade, the American Community Survey, a proposed replacement for the Census Bureau's long form, will begin to update these estimates on an ongoing basis.

CPD's formula programs will also begin to use Core Based Statistical Areas (CBSAs) in place of metropolitan areas. Under the CBSA proposal, principal cities will replace central cities. OMB will identify these new areas with assistance from the Census Bureau once Census 2000 data are released. OMB provides information about its Statistical Policy on web in documents found on its Information and Regulatory Policy page.